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ACTION EUR-12

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SUBJECT: PRELIMINARY TRADE AND BALANCE OF PAYMENTS DATA THROUGH
OCTOBER

REF: ROME 15894

1. SUMMARY. PRELIMINARY TRADE AND PAYMENTS DATA JANUARY
THROUGH END-OCTOBER SHOW ADJUSTED CUMULATIVE BALANCE
OF PAYMENTS DEFICIT OF \$6,976 MILLION, OF WHICH TRADE
DEFICIT AMOUNTED TO \$7,417 MILLION. (THROUGH NOVEMBER
15 BALANCE OF PAYMENTS DEFICIT WAS \$7,063 MILLION.)
SURPLUS ON CAPITAL ACCOUNT, EVEN APART FROM EUROMARKET
BORROWING, HELPED REDUCE SIZE OF OVERALL DEFICIT.
OCTOBER OVERALL TRADE DEFICIT WAS SMALLEST MONTHLY
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DEFICIT SO FAR IN 1974. OCTOBER SURPLUS ON NON-OIL

TRADE ACCOUNT REDUCES CUMULATIVE TEN-MONTH NON-OIL TRADE DEFICIT TO \$1,412 MILLION OR SLIGHTLY UNDER ONE-QUARTER OF TOTAL TEN-MONTH OVERALL TRADE DEFICIT. OFFICIAL FOREIGN EXCHANGE RESERVES WERE REDUCED BY \$725 MILLION IN OCTOBER AND ARE LIKELY TO BE FURTHER DRAWN DOWN SOMEWHAT DURING REMAINDER OF YEAR. END SUMMARY.

2. THIS REPORT UPDATES DATA CONTAINED IN REFTTEL THROUGH OCTOBER. ALL FIGURES CITED ARE IN MILLIONS OF DOLLARS UNLESS OTHERWISE INDICATED. TRADE FIGURES ARE ON CUSTOMS BASIS WITH ROUGH 6 PERCENT ADJUSTMENT TO CONVERT IMPORTS FROM C.I.F. TO F.O.B. BASIS. DIFFERENCE BETWEEN SHIPMENTS/ARRIVALS AND RECEIPTS/PAYMENTS FOR MERCHANDISE APPEARS AS "COMMERCIAL CREDIT." ALL OTHER FIGURES ARE ON PAYMENTS BASIS. CAPITAL ACCOUNT DOES NOT INCLUDE EURO-MARKET TERM LOANS WHICH ARE TREATED AS MONETARY MOVEMENTS RATHER THAN CAPITAL FLOWS.

3. TABLE 1 (PARA 8 BELOW) PRESENTS BALANCE OF PAYMENTS DATA THROUGH OCTOBER. OCTOBER TRADE DATA (CONVERTED AT MONTHLY AVERAGE EXCHANGE RATE OF \$1.00 EQUALS 666 LIRE) SHOW OVERALL TRADE DEFICIT OF 544, SMALLEST MONTHLY DEFICIT SO FAR IN 1974. MONTHLY DEFICIT FIGURES SHOW DEFINITE DOWNWARD TREND SINCE APRIL. FIRST QUARTER AVERAGE MONTHLY DEFICIT WAS 824, SECOND QUARTER 830, AND THIRD QUARTER A MUCH LOWER 649.

4. OCTOBER OIL DEFICIT OF 652 WAS UP FROM SEPTEMBER AND EXCEEDED PRECEDING NINE-MONTH MONTHLY AVERAGE OF 596. NON-OIL TRADE SURPLUS OF 108 IN OCTOBER COMPARED TO 62 DEFICIT IN SEPTEMBER AND JULY AND AUGUST SURPLUSES OF 15 AND 20. IN 5 MONTH PERIOD JUNE THROUGH OCTOBER CUMULATIVE NON-OIL BALANCE WAS IN SURPLUS BY 191. COMMERCIAL CREDIT IN OCTOBER TURNED AROUND FROM LARGE POSITIVE 464 IN SEPTEMBER TO NEGATIVE 44. SUCH CREDIT IN THIRD QUARTER 1974 TOTALLED 1,581. NEGATIVE FIGURE IN OCTOBER MAY MEAN THAT TURNAROUND IN LEADS AND LAGS MAY NOW LARGELY HAVE BEEN COMPLETED.

5. THROUGH TEN-MONTH PERIOD OVERALL TRADE DEFICIT WAS LIMITED OFFICIAL USE

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7,417. SERVICES AND TRANSFERS ACCOUNTS WERE IN DEFICIT DURING PERIOD BY 1,040. MAJOR NEGATIVE ITEMS WERE FREIGHT AND INSURANCE ON IMPORTS, INVESTMENT INCOME AND "OTHER" SERVICES. HOWEVER, DEFICIT ON THESE ACCOUNTS IS OVERSTATED DUE TO HIDDEN CAPITAL FLIGHT. THEREFORE, DUE TO ADJUSTMENTS FOR CAPITAL FLIGHT AND OTHER REASONS, SERVICES ACCOUNT IN "ECONOMIC" BALANCE OF PAYMENTS FOR 1974 WILL EVENTUALLY SHOW RELATIVELY MORE POSITIVE BALANCE (AND

CAPITAL ACCOUNT WILL BE MORE NEGATIVE). CAPITAL ACCOUNT DURING PERIOD WAS IN SURPLUS BY 1,243 EXCLUDING EUROMARKET BORROWINGS.

6. TABLE 2 (PARA 9 BELOW) SHOWS METHOD OF FINANCING OF DEFICIT IN OCTOBER AND DURING FIRST TEN MONTHS OF 1974, WITH MAIN SOURCES OF FINANCING BEING EUROMARKET TERM LOANS EARLY IN 1974, GERMAN GOLD COLLATERAL LOAN, EC SHORT-TERM CREDIT, IMF CREDIT AND SHORT-TERM BORROWING BY COMMERCIAL BANKS. OFFICIAL FOREIGN EXCHANGE RESERVES INCREASED SUBSTANTIALLY FOLLOWING RECEIPT OF PROCEEDS OF 2 BILLION GERMAN GOLD LOAN. HOWEVER, OFFICIAL FOREIGN EXCHANGE RESERVES WERE REDUCED 725 IN OCTOBER AND ARE LIKELY TO BE FURTHER DRAWN DOWN SOMEWHAT DURING REMAINDER OF YEAR.

7. COMMENT. DROP IN OVERALL TRADE DEFICIT AND POSITIVE NON-OIL TRADE BALANCE ARE BRIGHT SPOTS IN OCTOBER FIGURES, WHILE OVERALL BALANCE OF PAYMENTS DEFICIT WAS FAIRLY LARGE. INCREASE IN OIL DEFICIT IN OCTOBER WAS SLIGHT AND WAS LOWER THAN IN APRIL, JULY AND AUGUST DEFICITS. REDUCTION OF 725 IN FOREIGN EXCHANGE RESERVES IN OCTOBER, REFLECTED SIZE OF TOTAL DEFICIT AND REDUCTION IN BANKS' FOREIGN DEBTS.

RECENT PATTERN OF TRADE AND PAYMENTS DATA SUGGEST THAT OVERALL TRADE DEFICIT FOR 1974 WILL BE APPROXIMATELY 8.5 BILLION AND OVERALL BALANCE OF PAYMENTS DEFICIT APPROXIMATELY 7.5-8.0 BILLION.

8. TABLE 1 - BALANCE OF PAYMENTS (MILLIONS OF DOLLARS)

OCTOBER CUMULATIVE TEN MONTHS

EXPORTS (F.O.B.) 2,827 24,475
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IMPORTS (F.O.B.) 3,371 31,892
TRADE BALANCE -544 -7,417
(OIL DEFICIT) (-652) (-6,005)
(NON-OIL DEFICIT) (108) (-1,412)
SERVICES -152 -1,040
CURRENT ACCOUNT -696 -8,457
COMMERCIAL CREDIT -44 888
OTHER CAPITAL
(EXCLUDING EUROMARKET) 86 355
CAPITAL ACCOUNT 42 1,243
ADJUSTMENTS 60 238
DEFICIT (ADJUSTED) -594 -6,976

9. TABLE 2 - FINANCING OF DEFICIT (MILLIONS OF DOLLARS)

OCTOBER TEN MONTHS

OFFICIAL

GOLD/FX (- MEANS

INCREASE)	725	-1,050	
OTHER OFFICIAL	-25	231	
IMF STANDBY	-	841	
IMF OIL FACILITY	-	315	
EC SHORT-TERM CREDIT	-	1,885	
GERMAN GOLD LOAD	-	2,000	
EUROMARKET (NET)	-	2,120	
COMMERCIAL BANKS	-106	634	
TOTAL	594	6,976	

10. TECHNICAL NOTE ON DATA IN TABLES. NON-TRADE CUMULATIVE DATA
 INCLUDE ANY BOI REVISIONS IN MONTHLY DATA
 REPORTED IN PREVIOUS CABLES. THEREFORE, SUM OF MONTHLY
 NON-TRADE DATA REPORTED EARLIER WILL NOT EQUAL
 CUMULATIVE DATA PRESENTED IN TABLES ABOVE. VOLPE

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